# SUSTENABILITATEA DECIZIILOR AUTORITĂŢILOR LOCALE ÎN CONTEXTUL CRIZEI FINANCIARE

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## SUSTAINABILITY OF LOCAL DECISIONS DURING FINANCIAL CRISIS

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***Abstract***
Defined by its administrative and financial content, local autonomy is expressed throughout local financial decisions thus, involving the financial management of local communities. These apparent unconditioned decisions are in fact deeply influenced by a complex of political, legal, economic, social and psychological factors. This paper aims to reveal how these very factors are influencing the optimal administration of local public finance that essentially supports „ the good governance” of local communities. Based on these ideas, our paper tries to bring to light the most important premises and conditions that are influencing the involvement of local actors and local budgets in the management of local affairs, insisting on their importance in the context of the present crisis.

***Keywords***: local governments, financial management, good governance, financial crisis.

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***Rezumat***
Considerată din perspectiva conţinutului său administrativ şi financiar, autonomia locală îşi găseşte consacrarea prin intermediul deciziilor (financiare) locale, în contextul managementului financiar al colectivităţilor locale. Aceste decizii, aparent necondiţionate, se află sub impactul unui complex de factori de natură politică, juridică, economică, socială sau chiar psihologică, a căror influenţă ne propunem să o relevăm prin analiza de faţă, ţinând cont că, într-un plan mai larg, o bună administrare a finanţelor publice locale constituie un suport indispensabil pentru asigurarea „bunei guvernări” a colectivităţilor locale.
Pornind de la aceste considerente, lucrarea noastră urmăreşte să releve principalele premise şi condiţii ale implicării agenţilor locali şi bugetelor locale în gestionarea afacerilor locale, insistând asupra rolului acestora în contextul crizei actuale.

***Cuvinte cheie:*** autorităţi locale, management financiar, bună guvernare, criză financiară

## 1. CHARACTERISTICS OF THE LOCAL GOVERNMENTS FINANCIAL MANAGEMENT

Public budgets are presented simultaneously, both as regards acts of foreseeable costs and revenues of local communities, authorized to run through normative legal acts, and as an expression of public policies implemented by those who have undertaken, at a time, the local governance.

Considered separately, the budgets of local stores that feature, but their meaning is "politics" are concerned, in line with the position, competences and responsibilities of local authorities within the administrative system.

From this point of view, local budgets and local agencies have a leading role in crisis management and counteract, through economic or financial specifications in the decision-making process adopted behavior, that prove or not ambitions of managerial nature.

By definition, local financial management is a set of principles, methods, techniques and tools used by policy-makers and community oriented local objectives (involving and counter crisis) based on resource economy, effectiveness and efficiency of mobilization and use of financial resources (Oprea, 2010).

If in the private sector the financial management of activity is considered "enterprise's cause of success or failure" (Onofrei, 2007), in the public sector, financial management becomes the main cause of efficiency or inefficiency in the use of public money.

Financial management decisions have direct implications primarily on local development (through sustainable economic growth) and the relationship between local authorities and members of the community, reflected in the effective exercise of local autonomy (Shah, 2007) and defending their identity.

In practice, the manifestation of local financial management for the purposes of the foregoing shall ensure the fulfillment of its specific tasks and duties.

Thus, the main functions attributable to the local financial management are represented by the planning of financial activities, the function of organizing and running (current) financial activities, namely the control function (performance) of financial operations (Oprea, 2010).

Corresponding to these functions, the duties of local financial management are outside the elaboration, execution and control over local budget execution and public institutions subordinated the budgets of local authorities, as represented by:

- determining the volume and structure of local public spending, ranked according to priorities and objectives of the public entity;
- ensuring incomes to cover local expenses determined in terms of volume and adequate sources of origin;
- attracting additional local financial resources (for example, by stimulating the growth of local tax base);
- harmonize the funding of the local community objectives;
- ensuring local financial equilibrium;
- ensuring the solvency of the administrative territorial unit;
- control over financial resource mobilization and local community;
- monitoring the process of financial resources mobilization and allocation at local level.

Functions performed by the financial management of local community and achieved in practice by the powers above, have as a result of his pragmatic, effective leadership, consisting of financial activity in the local community. In the context of the current financial constraints, the role of financial management is manifested by optimizing local taxation in line with increasing the collection of claims, and by streamlining the processes of mobilization and allocation of public funds.

However, local public debt management policy should be linked with resources allocation, long-term investment orientation that contributes to sustainable development and financial credibility of the local community, to the prospective lenders.

## 2. THE ROLE OF LOCAL BUDGET IN THE CONTEXT OF CURRENT FINANCIAL CONSTRAINTS

In the context of the current financial constraints, public (local) budgets are presented as leading operational tools, essential to ensure good governance. Especially in conditions of economic and financial crisis, local budgets reveal their intrinsic qualities of the basic tools of financial management, as quantified in a realistic way, local community interests in relation to possible needs to satisfy.

As a result of financing and investment decisions, local budgets can influence investors and creditors' behavior, ensuring predictability and diminishing the potential risks.

The role of local budgets in counteracting crisis results in a first outline from the forecasting function of local financial management. Local budgets reflect in financial terms, the results of forecasting activities that are the responsibility of local authorities in terms of financial needs, the destination and size of local expenditures or projected financial results.

These data become a useful basis for choosing optimal alternatives for achieving the specific goals, which requires that the approach of drawing up budgets work to be done with responsibility, prudence and realism. As stated by some authors, "the content of the budget forecast assumptions to create effective management of resources and assets of each entity, including the possibility of purchasing any additional financial resources or to place any surplus financial resources" (Filip , 2002).

In the same context of local financial resources mobilization and allocation, local budgets have an important role in the following areas:

- use as tools for determining the volume and structure of financial resources for various activities, including the basis for decisions in financial terms and conditions under which resort to different sources of funding;
- exercise financial control over economic and social activities through the requirements of employment opportunity and resource efficiency;
- establishing conditions for achieving financial balance in the various entities to correlate rational financial needs and resources covering procurement opportunities.

This is to consider looking for alternatives to promote financial stability and ability to pay under the effective use of financial resources. Given the role of budgets in local financial management is aimed correlation between income and expenditure of local budgets, seeking financial stability in the context of the requirements to minimize costs and maximize revenue for a certain level of public service.

## 3. LOCAL FINANCIAL DECISIONS IN TIMES OF FINANCIAL CRISIS

In relation to those stated above, a prerequisite for the financial viability of the decision, especially in conditions of crisis, is the quality and budgeting tools involved. In this framework, the widespread use of program budgets or performance-based budgets, involving the use of methods and techniques for sizing of income and expenditures (such as cost-benefit analysis) is essential to fulfilling the role of local authorities.

However, performance-based budgeting is correlated with the responsibility of local authorities (Shah, 2007). The traditional budget, means-oriented, which in Romania is still the basic benchmark, does not highlight enough the essentials of local programs (program effectiveness in terms of social net benefit).

Based on their role in local financial management, we appreciate that local budgets through income and expenditure indicators, implicitly through data sources and destinations of their income is a reflection of government policies, local authorities determined with a free, pre-legal on their content.

In other words, although their sense of local autonomy in local budgets would allow coverage of any shares by the free decision of local authorities' discretionary power acts just as a binding limit local authority to achieve a purpose (generally set by higher levels of government), being able to choose when and means of achieving it. From this perspective, it is estimated that the costs often considered as a share of total local government expenditure provides an insight into the degree of financial autonomy of local communities.

Depending on the particular assignment of powers in carrying out state functions between central and local authorities and their combination with appropriate revenue sources, however, can be seen that in some cases provided by this indicator image is distorted, reflecting local budget actions (destinations) and the corresponding costs for specific tasks set by the central and local level transferring resources needed to accomplish the work. In these circumstances, the local agents becomes in terms of administrative autonomy a simple executants of the tasks set by the central level and in terms of financial autonomy, the local authorities' dependence by central financial resources is growing.

Under these conditions, a more realistic picture can be obtained by comparing the own revenues of the local community with the expenditures that it supports the local budget or comparing total local revenues with local budget own revenues. Based on these considerations, note that in general public financial decision-making process has specific features, which produces the substance of the content and implications of the event "local fiscal policy". In this regard, we note that the financial management of local governments, especially evident in contrast to the financial management of the company (private), derived primarily from the specific conduct of this activity, with the essential feature of legal regulation.

No doubt that private entities work takes place under the impact of legal constraints, but the extent to which legal rules limiting freedom of decision-making actors are different, producing different effects. In case of companies, such as decisions regarding the financial structure of the company, the capital, to finance the activity or how the distribution of dividends are taken into full freedom in line with the interests of stakeholders.

If the local community, such decisions are strictly regulated, sources of income of local budgets are established by law, ordered according to the principle of specialization, their size is, for some angles of view, the default (for example, by limiting the level of local loans margins tax share of local levies), expenditure funded locally have a similar regime, local loan can be promoted only under local public finance law conditions etc.. In other words, unlike the firm, which is free, can act in one way or another, observing legal norms concerning economic activities, public authorities are required to perform certain actions, to make some financial decisions, as embodying the power of public content that is.

Under these conditions, an essential feature of the local budget process and financial decision given that it has a limited framework for action. This observation should not be absolutized, given that in exercise of the same tasks so-called local decision-makers discretionary power, which leaves open the possibility to choose between several possible solutions to achieve the same objective, in most cases and can choose when committing the action.

Especially if economic actions designed or promoted by local authorities or the subordination of economic entities (interest) local decision-making procedure and methods used in it are largely similar to the private sector.

For example, quantifying the costs and outcomes (financial) of a program, comparison and decision making on the basis of implementing (or not) of this program (cost-benefit analysis) is useful and recommended both in the private and public activities, and for some public financial decisions, even mandatory (Bovaird and Löffler, 2009).

Referring only to the decision-making, legal coercion particularity financial decision-making of local budget is especially visible in terms of the documentation phase of this process, but not only. If the private agency has the option (not recommended) to decide without a certain background prior, based on "financial instinct" and assuming the corresponding risk, public decision-maker is bound by the legal basis for decisions according to their specificity.

Thus, the analysis of the legal frame working which the financial decision-making, local procedures may be separated prior existence of these decisions (e.g., notice, consent, explanatory memorandum, proposals, projects, feasibility studies etc.), the concomitant procedures (quorum, the majority) or later (the approval, confirmation, communication).

Likewise, financial public decisions are subject to the control (administrative) and internal /external or hierarchical and judicial review. In terms of control, be informed that non-compliance with opportunity, as a mandatory feature of public decision can become a reason to cancel it, while in the sphere of private activities withdrawal decision (similar administrative revocation decision) or modification of decision is subject to conditions express legal.

From another perspective, we see that if private companies are not legally established a set of principles for financial decision making, because they contravene free enterprise and restrict competition. The objective is to maximize the welfare of shareholders (owners) to provide business and increasing enterprise value.

In contrast, exercise financial management of local community in complying with the fundamental rules, which carries the content transmitted impact on financial decision-making process at local level.

Thus, principles such as legality, appropriateness and effectiveness of public administration, transparency and citizen participation in decision-making public decisions, the rule of public interest against private, decentralization and the principle motivation of actions/administrative measures cause direct implications on the performance of specific activities of the financial management local.

Among these principles, the effects of substances on the financial management of local produce principle of legality, appropriateness, efficiency principle, the principles of decentralization, local autonomy and subsidiarity, the principle of collaboration and cooperation of public authorities.

With some particulars regarding the decision-making, an important role in crisis management is local investment budget, which reflects the correlation between own resources to finance investments and expenditures made to achieve the objectives with investment character.

Its use is related to the plan or investment program, which is interconnected, serving as the basis for funding decisions that will be scored goals in the annual local budget. In terms of local dynamics, budget attached investment plan investment plays an important role on the development of medium and long term local.

Local financial manager must consider the connections and interdependencies between investment projects they consider the plan and activities already authorized or ongoing and funded this year reflected the operating budget. In other words, there must be a clear distinction between investment budget, prepared on the basis of the investment plan and budget execution, to avoid potential overlap and confusion of action, resulting in irrational use of local financial resources.

## 4. THE BEHAVIOR OF THE LOCAL DECIDERS, BETWEEN RATION AND ELECTION STAKE

The local financial manager cannot take a passive role, limited to the financing of local public services strictly necessary, but he should show similarity to the financial manager of the company, actively concerned with quantitative and qualitative increase in future economic and social base of the community. In this context, the capacity of local public financial manager to predict structural changes in the application of quantitative or qualitative public services is an important factor in excluding the financing of unproductive expenditure.

In terms of funding sources involved in supporting the investment plan, a special attention from the local financial manager should be given to use borrowed resources, by contrast with their own resources.

To the extent that own resources were available, their use appears to be more advantageous, since it involves no additional future payments and no interest and fees imposed on such future options for operating expenses or capital. On the other hand, recognizing that there can mobilize their own resources sufficient for large projects, the tax burden being borne by the current generation, and is found mainly benefit future generations.

Also, can be invoked the involvement of inequities between generations, which is contrary to sustainability decision-making. If we agree such an inequality, we see that the combined use of borrowed resources is likely to diminish. However, the option to use (part of) the resources coming from has the advantage of obtaining a loan in a shorter time resources, funding allowing, if necessary, several investment projects at the same time.

From another perspective, the attitude of local financial managers to counter crisis measures proposed or adopted by the central authorities have significant implications on the success of local strategies and crisis, globalized, on countering the crisis. In this context, sometimes we can observe contradictory positions of local decision makers.

It's about the fact that on the one hand they require or are pushing for the allocation (transfer) from the central budget of substantial amounts to meet local needs, claiming lack of own resources and on the other hand tend to failure of austerity measures (such as those relating to temporary wage cuts), citing local autonomy as a measure contrary to government policy.

In such circumstances, it reveals at least partial adoption by local agencies to conduct typical "free rider", calling for autonomy when financial resources are sufficient, and for financial support from central authorities when the situation is reversed.

From this point of view, be understood that remain local financial decision makers (particularly in unitary states) agents of the state, even "decentralized" and responsibility for the negative effects of their incumbent positions or irrational decisions as much as the central agency.

No doubt austerity, sometimes understood only on personal position by the measures concerned, it produces direct implications on the results of the vote, but it cannot relieve local financial managers to take into account the correlation between local interests and organic national interest. However, sustainable development is not holding, that the allocation of financial resources (with great effort), the inefficient action that does not create long term added value, but without votes in election campaigns. In such circumstances, it is wasteful in terms of purchased high capital costs, but worse, lost all vision.

Sustainability of financial decisions is focused on the links that "polarize" the whole that the local community, whose interests in the long term, short term transcends moments, imposing a new dimension of solidarity, embodied in a new structure of government expenditure, excluding waste from public financial funds.

Solidarity of those involved, accepted and even claimed by some sub national communities only when they are in need should be the rule and not the last-minute solution, excluding distortions in resources allocation by supporting more the consumption instead investment expenditures.

At a larger scale, "cries the rescue" of local communities on the edge of insolvency or financial crisis (as defined by regulation of local public finance law) when "honored" by the central government transfers and subsidies from the central budget, as reflected financial effort of members of other communities, potentially responsible and reflected the effect of literature called "soft-budget syndrome", consisting of entities that saving will determine the obligation to accept the salvation of others, finally resulting in the national economic decline (Kornai, 2009).

On our part, note that this "syndrome" can occur when local budgets similar in that attitude "protective" undue financial decision makers to local economic failures, can cause financial or social obligation to accept all more requests for help, with negative effects on those communities recover.

In the correlation between the income and expenditure of local budgets, noting that, especially in conditions of crisis, the report is unfavorable net first part, we believe that the financial management of the local community should be given to sources of income, involving issues and identifying and assessing taxable materials, identifying and attracting new sources of income, debt collection or local budget effectively exercise financial control at local level.

A bet on any transfers, allocations or grants by the central authority has the effect of undermining the predictability of the volume of local financial resources, with direct implications for the proper administration of local interests.

This ensures sustainability of financial management tools in crisis times, reflected in the provision of liquidity to finance anti-crisis measures in conditions of austerity, preventing situations of financial difficulty that cannot be controlled and whose effects cannot be predicted.

In these circumstances, we believe that the relationship between taxpayers and local tax authorities should be placed on two levels directly related to attitude (individual) taxpayers in fiscal citizenship requirement purposes: one tier "defensive", embodying the free counseling service and honest taxpayer, extended up to the completion of tax returns, combined with a plateau „offensive", tracking, control, sanctions and enforcement, "unyielding" to taxpayers who assumes tax liabilities.

The experience of some countries highlights the possibility of movement of workers tax office business start-ups to inform them of the obligations in the field, ensuring support further action on one of the two levels discussed.

Similarly, the United States attitude and action of tax authorities is also differentiated gradually becoming honest taxpayers "commercial customers" of the tax advantage of free advice or help in completing tax returns in cases opposing practicing the powerful control demanding and tough.

In general plan, the effectiveness of local financial management (especially in conditions of crisis, but not only) must be determined by what is called "local financial performance."

Financial performance of local authorities directly affected by the quality of decision-specific financial management of local bodies, should be measured through a consistent and uniform set of indicators, thus providing support for comparing the different developments in terms of joint administrative-territorial communities, which are the same administrative landing at different levels in the same or in different states. A uniform basis for comparison is useful as local financial manager, who can "measure" their own performance in relation to those recorded from other corporate and public decision-makers at other levels or private.

Learn to make decisions when designing or promoting specific policies (financial) public setting, for example, the criteria used in the formula by which amounts are allocated by balancing local levels or taking decisions on the guarantee of loans to be contracted local authorities, policy-makers have a realistic basis of the decision and allowing value judgments with the main part of local efforts and incentives makers.On the other hand, for the private agents who are in a position to make decisions involving different relationships with local governments (loan decisions, public-private partnership with local authorities etc.) the performance indicators set provides useful benchmarks that diminishes uncertainty of financial developments regarding the partner.

From another perspective, the citizen taxpayer and beneficiary of public services have now a useful tool for comparison and monitoring of financial performance of local government activities, especially for different periods of "local governance" (performances obtained by a local financial manager or group of local representatives compared with the previous one) or communities of the same rank. Indicators put in question, reflecting the financial performance of the local community, become a basis for assessing its financial credibility. In modern terms, the notion of rating is applicable to local authorities with similar implications that produce the country rating, for example. In principle, assessment of local financial credibility seems useful only to potential creditors of the local community, but it should be noted that understanding the substrate "financial health" of the local community is equally useful and local authorities and citizens.

In conclusion, promoting a qualitative local financial management is a basic condition to avoid the crisis and its negative effects on sub national communities. Local authorities taking austerity budget decisions consistent with the central authorities, appears as an essential prerequisite for further development to ensure balanced bases.

Sizing rigorous tax effort of local authorities and their relationship to the size of funds allocated centrally with local capacity to generate revenue (by including the formula for balancing the distribution of funds from central level it) is essential to stimulate the quality of local financial decision. Local authorities have to adopt an active attitude towards how to collect revenue and of expenditure, ensuring the sustainability of financial management tools.

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